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RESOURCE ALLOCATION IN THE USSR

Labor  
Chart  
US vs. USSR  
Ind., Ag &  
Services

The allocation of labor to different sectors is shown on this next chart. The USSR has \_\_\_\_\_ million in industry compared to US and services - but agriculture - SU vs \_\_\_\_\_ US. This dramatizes the very low productivity in socialized agriculture in the USSR.

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End Use  
Chart  
US vs. USSR  
End Uses in  
1963

25X1 Now let us see how the overall production is used in the Soviet Union. This chart shows a comparison of US and Soviet GNP end uses for 1963 in 1963 dollars. The end uses are consumption investment, defense administration and education. Although Soviet GNP is less than 1/2 US, the defense expenditure in \$ was nearly equal to US investment, also nearly equal to US, and education, also an investment more than half. But less than 1/3. This is the basic strategy of development.

25X1 Defense and investment for growth, with C getting what is left. Recently more for consumer and food has become urgent.

The allocation decisions that the leaders must face are: How much for defense vs. investment and within investment, how much for agriculture and consumers goods -- industry vs. heavy industry.

Growth  
Chart  
US vs USSR

The growth objective has always been to catch up with the US.

This chart shows how they are doing. This shows the GNP of the US in Blue and the USSR in Red in 1963 \$, and the absolute gap. Until 1960, the USSR was growing an average some  $6\frac{1}{2}\%$  a year. This was fast enough so the absolute gap was narrowed, but since 1960 rate growth has slowed to some  $4\frac{1}{2}\%$ , and the US also grew at about  $4\frac{1}{2}\%$  so the absolute gap has been widening again.

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This slowdown makes the allocation problem more binding. There is less of an increase each year to divide among the many claimants. Furthermore, lagging sectors like agriculture demand more investment resources.

Agriculture  
Chart  
USSR Ag  
Index, 1956  
- 1965

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This chart shows an index of agricultural production, total and per capita. After new lands expansion growth has been slow. By 1965 per capita production only = to 1956, and since 1963 the USSR has had to import \$1½ billion worth of wheat. This directly reduced the imports of Western equipment and the advanced technology that goes with it. Last March Brezhnev announced a very large program of investment in agriculture -- 80 billion dollars over the next five years. If carried out, this will certainly limit investment in parts of industry not supporting agriculture.

The problem of new technology is another aspect of choice the leaders must make.

Military  
Chart  
USSR defense  
expenses -  
Tot. + exotic

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Efforts to modernize industry and introduce new technology over the last 7 years have been disappointingly slow and the shortfalls have contributed to the slowdown in growth. An important part of the cause of the shortfall has been the demand of military advanced weapons program. This chart shows total defense spending and spending on missiles, nuclear weapons, and R&D. I believe you are familiar with this chart, Sir! The rapid growth of advanced weapons development and deployment has taken the best scientific and technical manpower away from industrial development.

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This outlines the resource allocation problems which the Soviet leaders face now in preparing the new five-year plan to start next year. We should be hearing in the next few weeks or months what decisions they have made.

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